

Message Text

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ORIGIN EA-12

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TO AMEMBASSY TOKYO

C O N F I D E N T I A L STATE 082801

E.O. 11652: GDS

TAGS: ECON, EFIN, ETRD, JA, US

SUBJECT: JAPAN'S EMERGENCY IMPORT PROGRAM

REF : (A) STATE (B) TOKYO 4008;
(C) 77 TOKYO 19508; (D) 77 TOKYO 19885

1. THE POSSIBILITY THAT JAPAN'S CURRENT ACCOUNT SURPLUS
MAY CONTINUE TO BE LARGE RATHER THAN DECLINE OVER THE
NEXT FEW CRITICAL MONTHS, WHICH BOTH WE AND THE GOJ
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RECOGNIZE, UNDERLINES THE SPECIAL IMPORTANCE OF PROMPT
IMPLEMENTATION OF THE STRAUSS-USHIBA COMMUNIQUE AND OTHER
MEASURES CONSISTENT WITH IT.

2. AT MEETING WITH UNDERSECRETARY COOPER MAR 15, MITI
VICE MINISTER MASUDA SAID THAT JAPAN AND GOJ WERE
BEGINNING TO RECOGNIZE THE NEED TO REDUCE THE CURRENT

ACCOUNT SURPLUS. HE NOTED, HOWEVER, THAT THERE "MAY BE SOME TIME DELAY PROBLEM" EVEN THOUGH JAPAN WOULD BE MOVING TOWARD AND WOULD HOPE TO ACHIEVE ITS JFY 1978 CURRENT ACCOUNT TARGET OF \$6 BILLION.

3. RESPONDING TO MR. COOPER'S COMMENT THAT WE HOPE THE NEEDED REDUCTION WOULD NOT BE TOO FAR IN THE FUTURE, MASUDA SAID THAT THE GOJ REALIZED THE NEED FOR AN

EMERGENCY IMPORT PROGRAM TO HANDLE THE TIME LAG, BECAUSE JAPAN WAS BEING CRITICIZED FROM ALL OVER THE WORLD, NOT ONLY BY THE U.S. THE GOJ BELIEVED THAT EMERGENCY IMPORTS WOULD PROVIDE TEMPORARY RELIEF WHILE MORE FUNDAMENTAL ADJUSTMENTS BEGAN TO TAKE EFFECT.

4. AS REPORTED REF A, MR. COOPER TOLD MASUDA THAT THE IMPORTANT THING WAS TO WORK ON THE UNDERLYING FUNDAMENTALS (STIMULATE DOMESTIC ECONOMIC GROWTH AND IMPORTS OF MANUFACTURED GOODS) BUT SOME EMERGENCY IMPORTS "COULD EVEN BE USEFUL" AND MIGHT BE HELPFUL IN STABILIZING EXCHANGE MARKETS.

5. EMBASSY HAS REPORTED ON OUTLINES OF EMERGENCY IMPORT PROGRAM (REF B) AND ON DETAILS OF SPECIAL EXIM BANK FOREIGN CURRENCY FACILITY OF UP TO \$440 MILLION WHICH WOULD GRANT LOANS BETWEEN DEC 20 AND JUL 19 FOR EMERGENCY
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IMPORTS OF KEY MATERIALS SUCH AS METALS, METAL ORES, OTHER RAW MATERIALS AND CERTAIN CAPITAL EQUIPMENT (REF C AND D). REGULAR EXIM IMPORT AND INVESTMENT FACILITY OF 258 BILLION YEN FOR JFY 1978 WAS ALSO DESCRIBED.

6. IN LIGHT OF GOJ SEARCH FOR SUPPLEMENTAL CURRENT ACCOUNT MEASURES, BELIEVE WE SHOULD BEND EXTRA EFFORT TO ENCOURAGE GREATER RECOURSE TO POSITIVE, TRADE-EXPANSIVE SUPPLEMENTAL MEASURES. IF WE ARE CORRECT THAT EXPANSION OF GOJ EXIM BANK EMERGENCY IMPORT PROGRAM DOES NOT REQUIRE CORRESPONDING BUDGETARY ALLOCATION, THE CURRENT LARGE RESERVOIR OF GOJ FX APPEARS TO OFFER CONSIDERABLE IMPORT FINANCING POTENTIAL PARTICULARLY SINCE GOJ IS REPORTEDLY WILLING TO PROVIDE LEASING ARRANGEMENTS, AND CONCESSIONAL FINANCING AT 4.75 PERCENT, TO ELIGIBLE USERS.

7. ACTION REQUESTED. EMBASSY IS REQUESTED TO APPROACH GOJ AT APPROPRIATE SENIOR POLICY LEVEL TO ENCOURAGE GOJ CONSIDERATION OF OVERALL ENLARGEMENT, AND LIBERALIZATION OF PRODUCT ELIGIBILITY IN JAPAN EXIM BANK

EMERGENCY IMPORT PROGRAM. YOU SHOULD EMPHASIZE THAT DOMESTIC ECONOMIC GROWTH AND FACILITATION OF IMPORTS OF MANUFACTURED GOODS ARE THE MOST IMPORTANT UNDERLYING FUNDAMENTALS WHICH MUST BE WORKED ON. YOU SHOULD MAKE IT CLEAR THAT WE ARE NOT SUGGESTING ANY PARTICULAR PURCHASES FROM THE U.S. IN APPROACHING GOJ, EMBASSY SHOULD ENCOURAGE GOJ LIBERALIZATION OF PRODUCT ELIGIBILITY FOR MAJOR MANUFACTURED GOODS SUCH AS POWER GENERATION, TRANSPORTATION, AND CONSTRUCTION EQUIPMENT AND OTHER HIGH COST ITEMS, OF WHICH JAPANESE BUSINESS

MIGHT ACCELERATE PURCHASE IF AVAILABLE ON LEASED BASIS. EMBASSY SHOULD ALSO ENCOURAGE GOJ CONSIDERATION OF SPECIAL PROCUREMENTS OF SURPLUS COMMODITIES SUCH AS
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COPPER, GRAINS, AND COTTON. FINALLY, EMBASSY SHOULD SUGGEST THAT GOJ MAKE PRESENTATION ON THE EMERGENCY IMPORT PROGRAM AT TFC MEETING SO THAT TFC MIGHT CONSIDER IN DETAIL WAYS IN WHICH IT MIGHT SUPPORT MUCH GREATER USE OF THIS FACILITY. COOPER

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